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Mid-Term Management Plan Progress and Outlook

TechnoPro Holding, Inc.

July 29, 2016

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1. Review: Mid-Term Management Plan “Growth 1000”

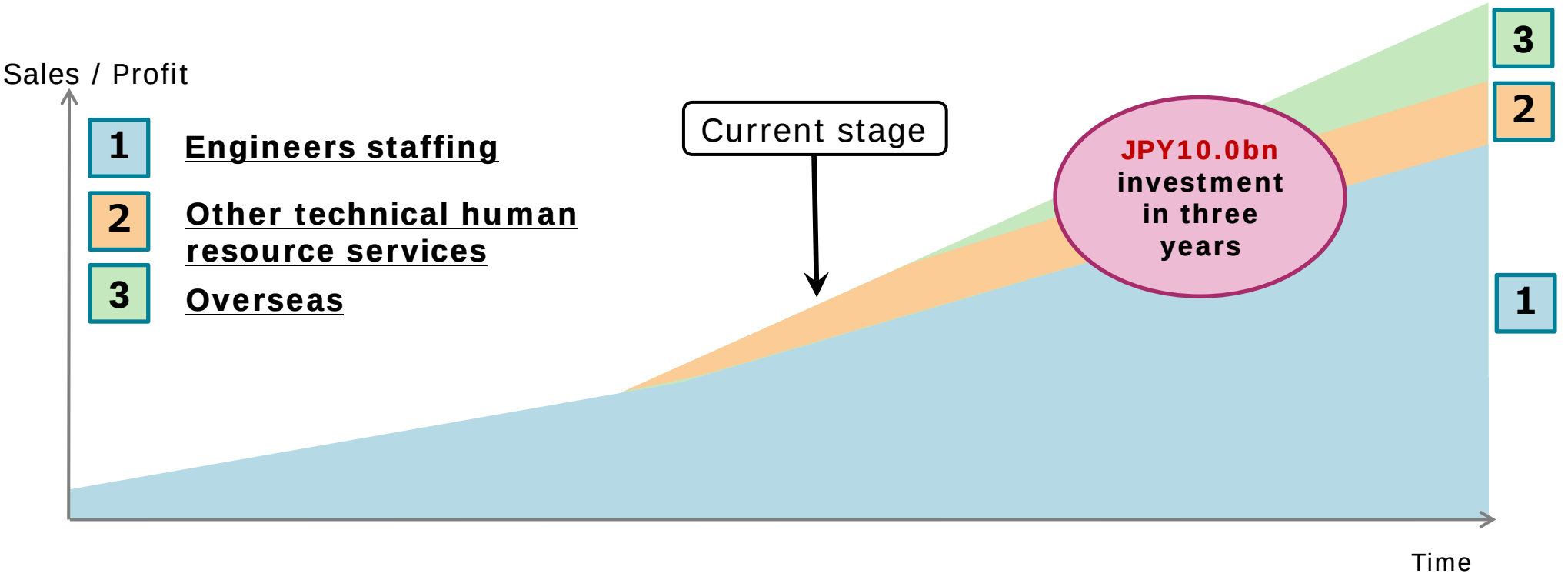
<Period for Mid-Term Management Plan>

Solid Mgmt foundation 2014–2015

- ✓ Integrate TechnoPro brands
- ✓ Consolidate subsidiaries
- ✓ Listing on TSE1

Accelerated growth 2016–2018

- ✓ Growth of engineer staffing market
- ✓ Amendment to the Worker Dispatching Law
- ➡ Proactive investments for growth



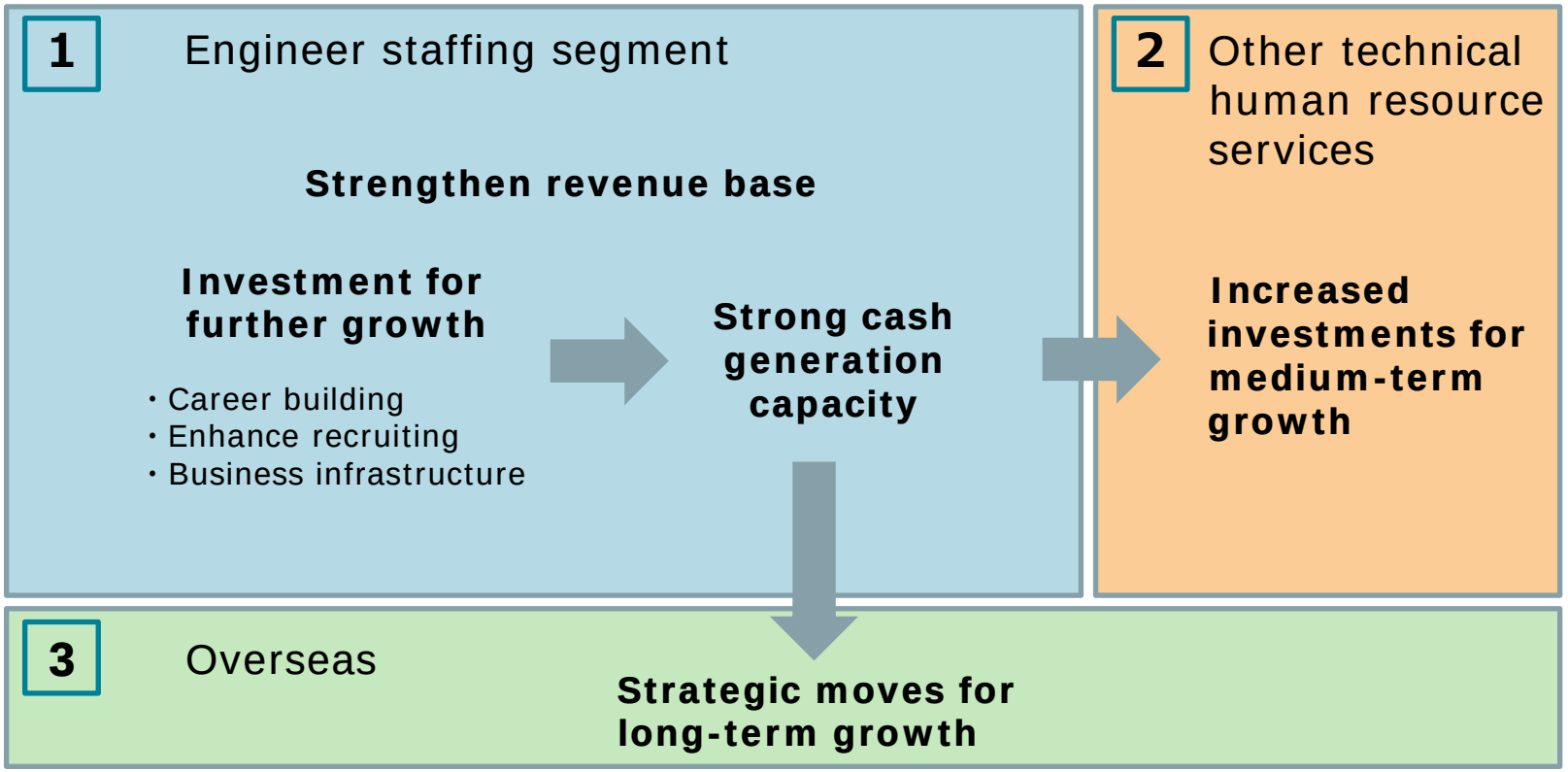
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1. Review: Mid-Term Management Plan “Growth 1000”

To be the leader of technical human resource market as well as engineer staffing

- **Strengthen the revenue base for engineer staffing segment** and invest generated cash into growth
- **Achieve growth in "Other technical human resource services" and "Overseas"**, offering solutions to diverse technology related needs of clients



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2. Strengthen revenue base in engineer staffing

Top Line

Raise unit price

+2% p.a.

JPY614,000 / month → **>JPY650,000 / month**

- ✓ Shift-up and Charge-up
- ✓ Enhance technical areas of strategic focus
- ✓ Implement key client strategies
- ✓ Promote assignment as a team

Increase engineers

+5–7% p.a.

11,969 → **14,200**

- ✓ Utilize diversified recruitment channels
- ✓ Increase new graduates
- ✓ **M&A**
- ✓ Implement engineers retention

Improve gross profit margin

23.5% → **>24.0%**

- ✓ Faster unit price growth than CoGs increase

Maintain / enhance competitive cost structure

SG&A/Sales: **14% level**

- ✓ Keep "Kaizen"
- ✓ Continue investing in IT systems, training, etc.

Bottom Line

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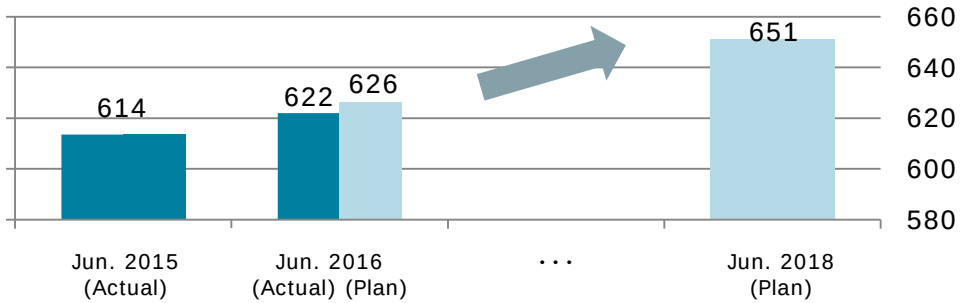
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2. Strengthen revenue base in engineer staffing

Unit Sales Price

- **Lower result than the initial year target, even Shift-up/Charge-up initiative and grouped staffing in a team proceeded steadily**

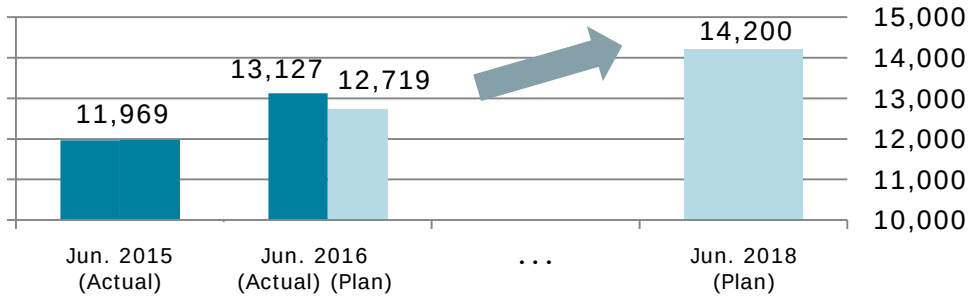
• Plan: 2% yearly growth to reach over JPY 650,000/month



Number of Engineers

- **Engineer headcount increased faster than the plan, with robust hiring and turnover ratio improvement driven by retention measures for engineers and enhanced training programs**

• Plan: Add 750 engineers annually to reach over 14,200



Examining M&A possibility to **reinforce our value-adding capability**, rather than as an alternate measure for recruiting, since engineer increase is still solid

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2. Strengthen revenue base in engineer staffing

Further investment on IT system to maintain/strengthen competitive cost structure

By resolving existing challenges, **bring SG&A/Sales ratio down to 13%- range from FY2019**

IT system investment

- Enhance IT systems
  - Attendance/invoice, workflow
- Relocate DC(data center)/DR(disaster recovery center)

(Result)

- Standardized and visible operation
- Proactive actions for law revision
  - Social Security and Tax Number, Amended Worker Dispatch Law
- Reduce DC/DR related cost

- Integrated human resource management system
- Sales force management, supply-demand matching system
- Integrated accounting/budget control system

(Result)

- Further streamlined operation
- Promote skill growth for engineers*
  - Software package development, big data analysis

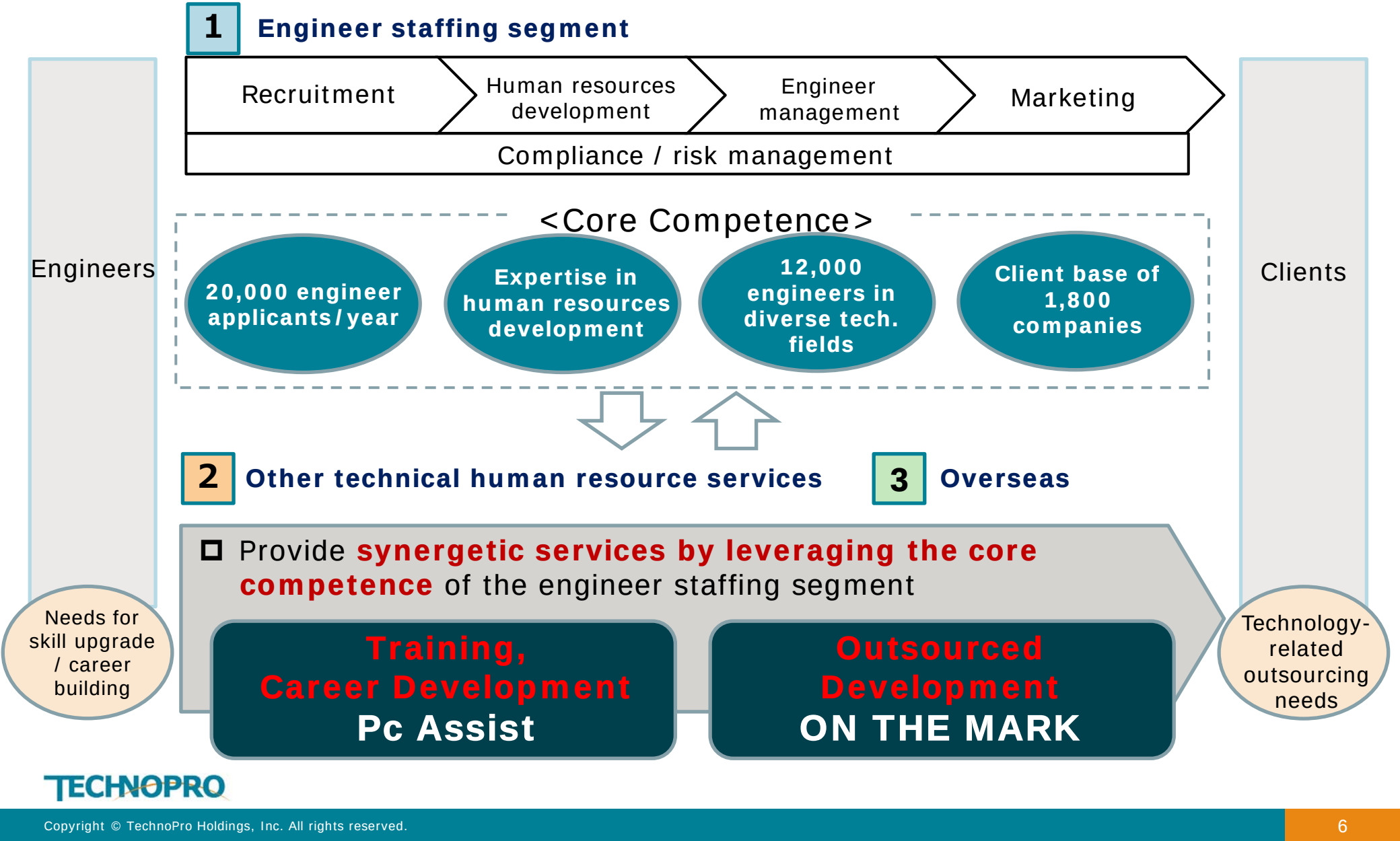
*Train IT engineers through internal system building projects

	FY2016	FY2017 - FY2018	FY2019
SG&A/ Sales ratio:	14% range		13% range

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3. Growth in other technical HR services: M&A track record and objective



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3. Growth in other technical HR services: M&A track record and objective

(1) Pc Assist Co., Ltd. (acquired in September 2015)

Enhance technical competence of TechnoPro group engineers



- Prospective employee education
- New-grads education
- Expert training（ex. CATIA）
- Strategic Technical Areas training
- Acquired qualification (3D CAD engineer, ETEC, etc.)

Potential for sales/profit growth in **training business**

- Leading companies such as auto-parts manufacturers, IT services companies are showing strong interest in training service

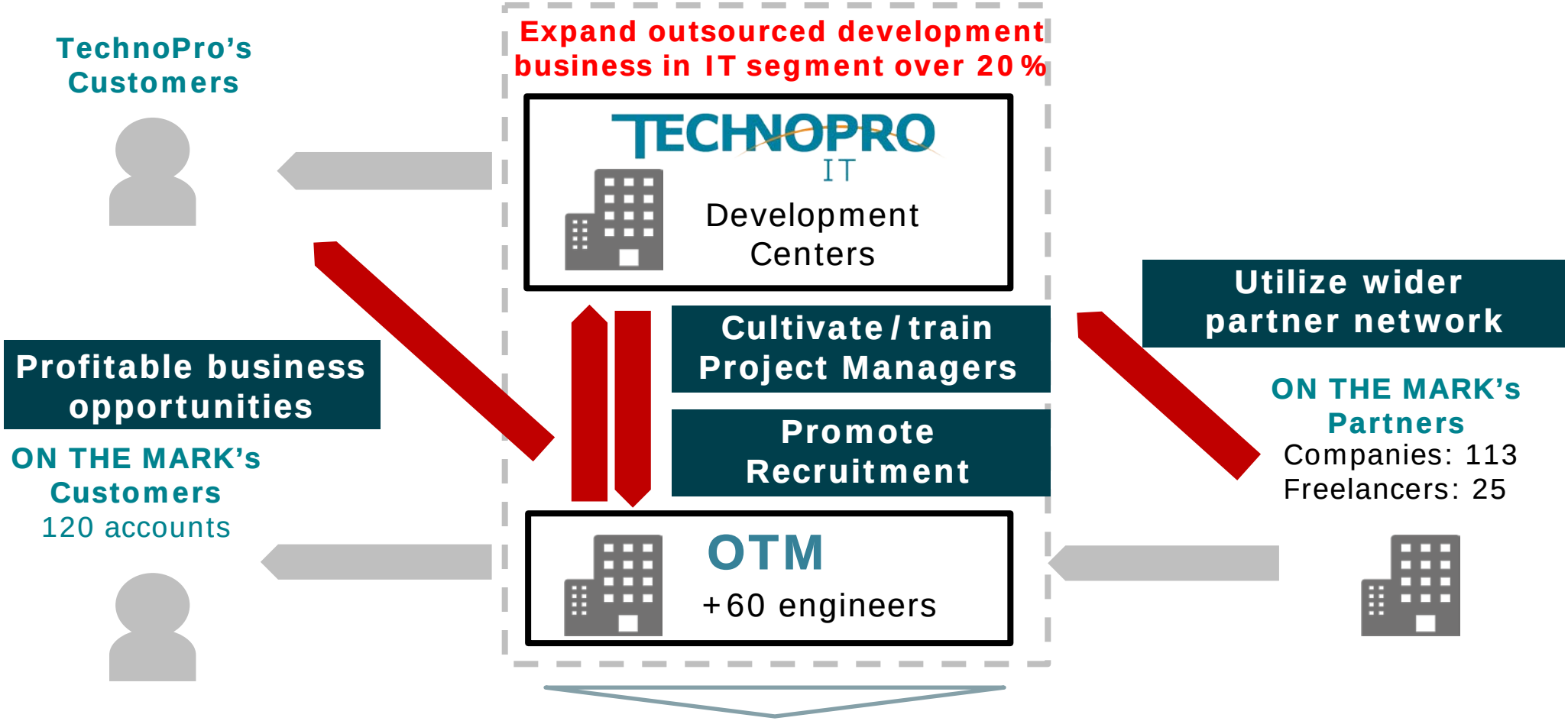
FY2016 (9 month) : brought ¥1 billion additional revenue

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3. Growth in other technical HR services: M&A track record and objective

(2) ON THE MARK Co., Ltd. (acquired in March 2016)



FY2016 (3 month) : brought ¥300 million additional revenue

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3. Growth in other technical HR services: M&A track record and objective

Mission : continuing EPS growth

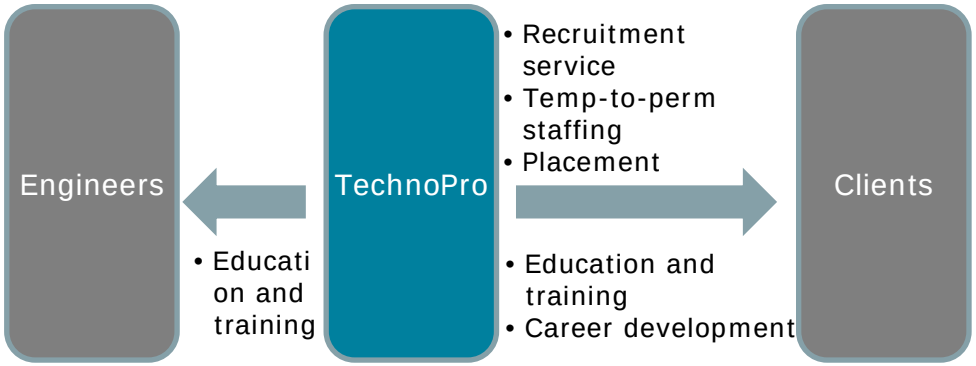
Creating Higher Values

- **Strengthen outsourced development business which promotes higher value creation by our engineers**

Mechanical/Electrical Engineering	IT	Biotechnology
Auto-related sector (ECU, etc.)	Utilize cloud-system, IoT, virtualization, application with potential	Enhance biotech research centers

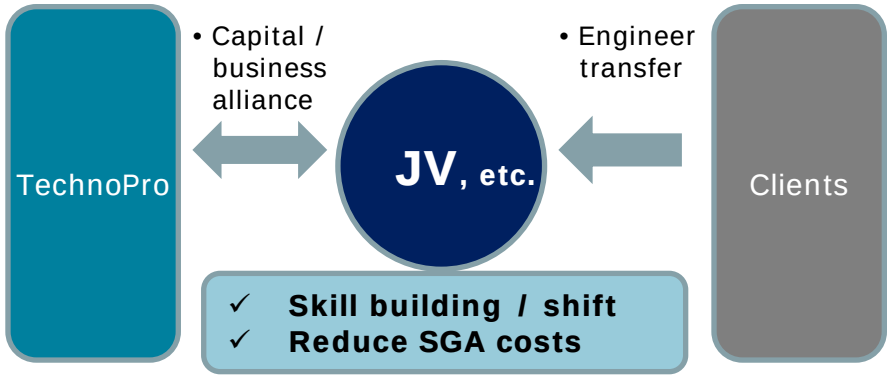
Engineer recruitment support / human resources development

- **Multi-dimensional support for clients' engineers**



Business restructuring support

- **Support clients to enable flexible shift of engineers to respond to market changes**



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4. Financing

Financing transaction on April 18, 2016

- **A** Third party allotment of new shares (JPY430 million)
- **B** Target Issue Program (“TIP”)

This transaction takes into account the interest of existing shareholders in terms of minimizing impact of dilution

<Purpose>

- ① **Financing for M&A to further accelerate our growth** **A** **B**
- ② **Strengthening balance sheet** **A** **B**

<Secondary Effect>

- ③ **Leveling corporate tax expense** **A**

The board of directors decided to cancel TIP (acquire/cancel stock acquisition rights) on May 30, 2016

- Remove concerns about share price formation (responding to market voice)
- Changes in financial market

Debt-financing is our primary option for M&A investment funding

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5. Progress and outlook

May develop a new mid-term management plan ahead if revenue / profit performance substantially exceeds the plan

(JPY in 100 millions)	Actual 2014.6	Actual 2015.6	Growth 1000 2016.6	··· 2018.6	Actual 2016.6	Forecast 2017.6
Revenue	741	812	880	1,000	903	980
OP	56	72	81	100	84	91
Net profit	40	68	76	70	73	77
ROE	31%	37%	32%	＞20%	32%	—
ROE (After normalization)*	21%	23%	21%	—	28%	—
D/E ratio			0.4 – 0.8x		0.7x	—
Payout ratio (plan)			Keep 50%		51.7%	50%

*Profit before taxes x (1-35%)

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